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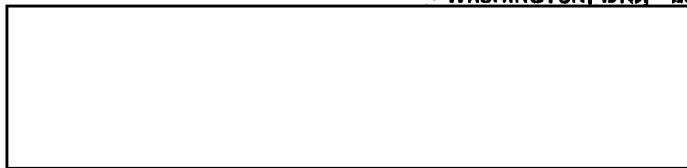
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CENTRAL INTELLIGENCE AGENCY

WASHINGTON, D.C. 20505

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9 May 1975

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MEMORANDUM FOR:

Non-Communist Area Staff
Office of Political Research

CIA/OER/5-08327-75

SUBJECT : Iran: Agricultural Outlook

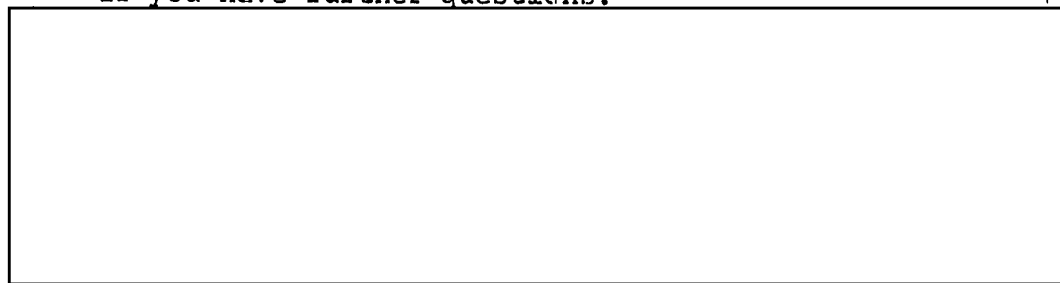
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1. In response to your request, [redacted]
has prepared the attached brief summary for transmittal
to [redacted]

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2. Please contact this office [redacted]
if you have further questions.

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Attachment:
As stated above

Distribution: (S-Project 08327)

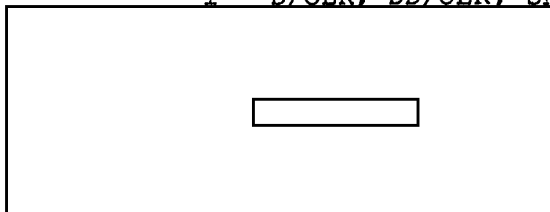
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Iran: Agricultural Outlook

I. Present Situation and Recent Trends

Agricultural production in recent years has barely kept up with population growth and has fallen substantially behind overall demand for consumer and industrial agricultural products. Officials indicate that demand is rising by 11.5% annually while a declining rate of growth in output over the past decade has averaged somewhat below 4%. Although Iran was once a net agricultural exporter, the widening gap between domestic supply and demand has been met by imports. It is estimated that food imports, responding to a sharp rise in income and government subsidization of costs of major food items, grew some six-fold in 1974. Exports of agricultural products in 1973, amounting to about \$300 million consisting primarily of cotton and fruits, were exceeded by some \$450 million worth of imports, of which food represented about 70%.

The poor performance of agriculture is attributable to earlier investment neglect and basic institutional problems, only some of which are susceptible to change

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in the short run. Promising in the short term are the efforts to assist farmers through expanded rural credit and services (roads, distribution, and training).

II. Factors Contributing to the Food Gap

The rise in food demand is not only a function of population growth but more importantly of changes in incomes and the urban/rural composition of the population. Per capita incomes in the past two years rose by 50% annually in current prices, and effective demand was expanded by an emerging middle class of managers, businessmen, and other elements of the Iranian "nouveau riche". With the expansion of income there has been a shift to better quality food -- more rice and meat and follow-on luxury items.

The major supply constraint on domestic production has been inadequate investment in facilities to assure stable water supplies. It will be some time before dams and irrigation systems now underway bring improvements. Reliance on rainfall for some 60% of the annual crops is a vulnerability that Iranian farmers will continue to face. Expanded credits to the small farmers, extended use of technology, and improved marketing and prices may have a more immediate impact. Present inefficient

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marketing and distribution systems result in high transportation costs, large wholesale and retail margins, and low producer prices. The government has the funds available to carry out needed reforms and has the mechanism, in the cooperatives and farm corporations, to promote better distribution. The Iranian bureaucracy moves slowly, however, and no quantum jumps in agricultural output are likely over the next several years. Goals for expanding agricultural output by 7% annually and food output by 9% yearly are not realistic.

III. Outlook for Imports 1975-78

Agricultural imports are expected to accelerate in 1975. Imports rose from about \$133 million in 1971 to some \$800 million in 1974 -- an annual growth rate of well over 50% (about 40% when adjusted for price increases). All signs point to a level of imports over \$2 billion annually over the next five years.

Physical problems rather than foreign exchange limit Iran's ability to meet its food import needs. Port and rail nets, strained by a combination of industrial, military and civilian imports, are presently backlogged with merchandise. Internal distribution is complicated by inadequate storage, road, and rail service facilities.

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Some short-term measures at improving customs procedures, and more efficient port management will bring partial relief, but the more basic changes needed to permit free flow of imports will not be achieved for another three years. These include construction of new port facilities, electrification of the railroads, and large-scale building of new roads. Storage facilities capable of handling some 2 million tons of wheat will be in place by 1978, expanding capacity to 2½ times its present 800,000 tons.

IV. Import Demand for Selected US Agricultural Products

Iran has indicated that its imports of food supplies from the US alone could reach \$10 billion over the next five years. The US supplied roughly one-quarter of Iran's agricultural imports until 1974 when the proportion grew to 67%. Wheat, rice, and vegetable oils, in that order, have been the major food exports from the US to Iran.

Iran, however, seeks to expand alternative sources of supply for many of the commodities that it normally imports from the US. On the other hand, the US has a comparative advantage in lines of technology and in provision of agricultural equipment, areas

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that Iran is emphasizing and which would offer wide
markets for export by the US.

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